

National Credit Union Administration "Low-income Designation"

The National Credit Union Administration (NCUA) administers the program designed to assist low-income credit unions in:

- Providing needed financial services;
- Stimulating the economy in the community served; and,
- Fostering growth and stability of the participating credit unions.

This information packet will assist potential and existing federal and state chartered credit unions in determining eligibility for a "low-income designation" and applying for the designation from the NCUA.

Low-income credit unions have the same mission as all other credit unions, with an additional requirement: a majority of their members must be at or below the income standard set by the NCUA Rules and Regulation. Such households are not well served by other financial institutions, so their credit unions are very important to them.

What is a "low-income" designation?

Section 701.34 of the NCUA Rules and Regulations defines "low-income credit unions" as those credit unions where the majority (50 percent of total members plus 1) of their members are at or below the following:

- Members who make less than 80 percent of the average for all wage earners as established by the Bureau of Labor Statistics; or
- Members whose annual household income falls at or below 80 percent of the median household income for the nation as established by the Census Bureau; or
- Members who are enrolled as full-time or part-time students in a college, university, high school, or vocational school; and
- Those members otherwise defined as low-income members as determined by order to the NCUA Board.

What are the Benefits of Low-Income Designation?

Once your credit union receives a low-income designation, you may participate in the following programs administered by NCUA:

- **Non-Member Deposits:** Low-income credit unions can receive non-member shares, share drafts and share certificates from any source, including public

unit accounts and accounts of other credit unions. The aggregate of such accounts shall not at any given time exceed 20 percent of the total shares of the credit union or \$1.5 million, whichever is greater without a waiver from the NCUA Regional Director and state supervisory authority (SSA) in the case of state-chartered federally insured credit unions. Before accepting any public unit or nonmember shares in excess of 20% of total shares, the board of directors must adopt a specific written plan concerning the intended use of these shares and forward a copy of the plan to the Regional Director. For additional information regarding the written plan, refer to Section 701.34 of the NCUA Rules and Regulations.

- **Community Development Revolving Loan Program (CDRLP):** Low-income credit unions are eligible to participate in the CDRLP. NCUA's Office of Community Development Credit Unions may approve loans/deposits to a low-income (designated) credit union in an aggregate amount of \$300,000. Low-income credit unions are also eligible for Technical Assistance grants to improve member services and increase the efficiency of credit union operations. The Technical Assistance funds are limited to income generated by the CDRLP.
- **Member Business Loans:** Low-income credit unions may exceed the member business loan aggregate limit provided in Part 723.16 of the NCUA Rules and Regulations. The aggregate limit on a credit union's outstanding member business loans (including any unfunded commitments) is the lesser of 1.75 times the credit union's net worth or 12.25 percent of the credit union's total assets. Net worth is all of the credit union's retained earnings (undivided earnings, regular reserves, and any other reserves).
- **FOM Expansions:** All federal credit unions may include in its field of membership, without regard to location, communities satisfying the definition for serving underserved areas in the Federal Credit Union Act. Also, any multiple common bond credit union can add low-income associations to their field of memberships.

How does a credit union obtain a low-income designation?

A federal credit union can obtain a low-income designation by submitting a written request for the designation to the NCUA Regional Director. The request must include documentation supporting the majority of the credit union's actual or potential members (for charter expansions) meet NCUA's low-income definition as prescribed in Section 701.34 of the NCUA Rules and Regulations.

A state-chartered credit union should first approach their state supervisory authority (SSA) to obtain the designation. This designation is subject to the concurrence of the NCUA Regional Director. This designation is available to both federally insured and non-federally insured credit unions which are eligible to

participate in the Community Development Revolving Loan Program and Technical Assistance Program. If the SSA has no such designation, the credit union should apply directly to NCUA. In any case, a state-chartered credit union must demonstrate it meets the same requirements expected of a federal credit union to obtain the low-income designation.

How does a credit union determine low-income eligibility?

Before submitting a request for a low-income designation, your credit union must document how it qualifies for such designation. This documentation is normally supported by one or a combination of the following methods:

- **Zip Code:** Zip codes of all members of record as of a particular date will be compiled and the aggregate number of members residing in each zip code determined. The median household income for each zip code will be determined and recorded. More than 50 percent of the credit union's current members must reside in defined low-income zip codes, based on US Census Bureau's Median Household Income Statistics. The zip code method can be used to determine if actual or potential members meet the low-income test. Credit unions seeking to expand their FOMs to include a low-income community may use zip code information to establish the median household income level of the community. However, the zip code boundaries cannot be used to establish a community for FOM purposes (e.g., a specific geographic area where residents interact).
- **Loan Survey:** A loan portfolio review will include all loans outstanding as of a particular date. The review will focus on either individual documentation of members' wages or household incomes. These amounts will be compared to NCUA's most current year's published qualifying standards. More than 50 percent of the borrowers must meet the low-income test. Care needs to be exercised in accepting this method to ensure the data is reasonably current and the borrowers represent a majority of the credit union's members.
- **Membership surveys:** Membership surveys will include 100 percent of the credit union's members of record as of a particular date or a statistically valid survey accepted by the NCUA Regional Director. It must be a written survey with reasonable controls to ensure every member had equal opportunity to receive the survey and comment. The survey must request the members' total household income and annual wage figure. These amounts will be compared to NCUA's most current year's published qualifying figures. More than 50 percent of the credit union's total membership must respond and qualify under the low-income test.
- **U.S. Census Bureau Block Group Information:** This method could be used to determine a community credit union's eligibility for low-income designation or non-designated low-income credit union's FOM expansion

request into a low-income community. This method will specifically determine a defined community's median household income.

- **Other Supportive Statistical Data:** Other statistical data provided by reputable organizations may be used if the NCUA Regional Director is satisfied the data presented is customary and uniformly accepted demographic information. If more than 50 percent of the members meet the low-income test, then the credit union or its FOM expansion group qualifies as low-income.

What are the methods for determining eligibility using statistical information?

Your credit union should use one of the following methods using statistical data gathered to determine eligibility for a low-income designation:

- **Method 1:** Compare any 1990 US Census Bureau's Median Household Income Statistics to NCUA's 1990 Measurement Standard of \$24,044;
- **Method 2:** Compare the current year's NCUA (CACI) projections for the Median Household Income or your credit union members' Average Weekly Wages to the NCUA's current year's income standards; or,
- **Method 3:** Other customarily accepted data used by federal and state agencies to identify and qualify low-income recipients for various entitlement and aid type programs.

How does NCUA calculate the Median Household Income / National Average Wage?

The Office of Community Development Credit Unions (OCDCU) reviews NCUA's median household income standard and the national average weekly wage annually. Based on this review OCDCU publishes the low-income eligibility thresholds by April 30th for the fiscal year.

In setting NCUA's annual national median household income standard, the OCDCU uses the current published US Census Bureau's National Median Household Income Standard. This figure is adjusted by the prior year's inflation rate as published by the Bureau of Labor Statistics. NCUA's standard for the National Average Weekly Wage is based on the current year's January annualized average weekly wage published by the Bureau of Labor Statistics. Both of these calculations are reduced by 20 percent to arrive at NCUA's current year's thresholds.

For 1999, NCUA's National Median Household Income Standard is set at \$30,374. NCUA's 1999 National Average Weekly Standard (Annualized) for an individual is set at \$18,701.

For 2000, NCUA's National Median Household Income Standard is set at \$32,477. NCUA's 2000 National Average Weekly Standard (Annualized) for an individual is set at \$19,417. Qualifying Low-Income Zip Codes for 2000 are not yet available.

The above figures should be utilized for determining whether your credit union or group of individuals meets the income standards for a low-income designation. Please note, the 1999 Median Household Income Standard of \$30,374 should be used only if the data being used is also adjusted for 1999 (refer to 1999 Qualifying Low-Income Zip Codes). Accordingly, the 1990 National Median Household Income standard of \$24,044 must be used if 1990 Census data is being utilized to determine low-income eligibility.

NCUA makes allowances for geographical areas with a higher cost of living. Section 701.34(a)(2)(i) of NCUA Rules and Regulations contains an exclusive list of geographic areas. The differentials for those areas are:

	Percent
Alaska	36%
Boston	17%
Chicago	7%
Hawaii	40%
Los Angeles	14%
New York	13%
Philadelphia	7%
San Diego	15%
San Francisco	13%
Seattle	10%
Washington, DC	19%

If your credit union is located within the geographical boundaries of the Consolidated Metropolitan Statistical Area (CMSA) for the above areas, you may increase the NCUA household income standard or average weekly wage figure by the appropriate differential.

Below are two examples both using the zip code method of qualification. The second example includes the high cost of living differential for Hawaii at 40 percent.

**List of Number of Members by Zip Codes
As of June 30, 19XX**

			<i>Median</i>	<i>NCUA's</i>
			<i>Household</i>	<i>Measurement</i>
<i>Low-Income</i>		<i>Number of</i>	<i>Income</i>	<i>Standard</i>
<i>Zip Code</i>	<i>Description</i>	<i>Members</i>	<i>1990</i>	<i>1990</i>
59801	Missoula	146	\$ 20,165	\$ 24,044
59802	Missoula	122	\$ 21,154	\$ 24,044
59821	Arlee	40	\$ 20,165	\$ 24,044
59824	Charlo	13	\$ 20,165	\$ 24,044
59826	Condon	5	\$ 21,154	\$ 24,044
59827	Conner	10	\$ 14,875	\$ 24,044
59853	Noxon	10	\$ 21,944	\$ 24,044
59872	Superior	6	\$ 22,917	\$ 24,044
59873	Thompson Falls	16	\$ 20,136	\$ 24,044
Total Members Residing in Low-Income Zip Codes		368		
Total Members		562		
Percentage of Low-Income Members		65%		

**List of Number of Members by Zip Codes
As of June 30, 19XX**

			<i>Median</i>	<i>NCUA'S</i>
			<i>Household</i>	<i>Measurement</i>
		<i>Number of</i>	<i>Income</i>	<i>Standard</i>
<i>Low-Income Zip Code</i>	<i>Description</i>	<i>Members</i>	<i>1990</i>	<i>Hawaii 1990</i>
96731	Kahuku	4	\$ 28,468	\$ 33,662
96757	Kualapuu	213	\$ 29,228	\$ 33,662
96786	Wahiawa	182	\$ 29,536	\$ 33,662
96815	Honolulu	8	\$ 32,467	\$ 33,662
96817	Honolulu	7	\$ 31,329	\$ 33,662
Total Members Residing in Low-Income Zip Codes		414		
Total Members		657		
Percentage of Low-Income Members		63%		